Will hospitality get its due in Union Budget 2026?

As India approaches the Union Budget on February 1, 2026, the hospitality industry is watching policy signals closely, aware that fiscal priorities announced from Parliament could define its next growth cycle. Positioned at the confluence of tourism, infrastructure, employment generation and consumption, hospitality remains acutely sensitive to decisions around taxation, capital allocation and regulatory frameworks.

The Budget arrives at a time of relative macroeconomic stability. India's economy is projected to grow by 7.4 per cent in the current fiscal year and approximately 7 per cent in FY27. BMI, a Fitch Group company, expects a supportive policy environment to continue bolstering medium-term growth, with monetary and regulatory measures likely to encourage investment and consumption through FY2026–27. Reinforcing this outlook, the National Statistics Office has also projected a 7.4 per cent GDP expansion for FY25–26, signalling the government's expectation of sustained momentum through the latter half of the ongoing fiscal year.

This optimism is mirrored in the performance of India's hotel industry. According to JLL India, calendar year 2025 marked a period of robust growth, with stable occupancy levels accompanied by strong increases in average daily rates (ADR) and revenue per available room (RevPAR). Nationwide occupancy rose by one percentage point between CY2024 and CY2025, while ADR grew by nine per cent and RevPAR by 11 per cent. The fourth quarter of 2025 continued this trajectory, driven by ADR-led gains and consistent occupancy, supported by corporate travel and international events.

Over recent years, all-India occupancy has consistently remained above 60 per cent, while ADRs have climbed steadily from around ₹4,500 to over ₹8,000. RevPAR, in turn, has risen to approximately ₹7,000 by the end of 2025, underscoring sustained pricing power across markets.

Investor confidence has kept pace with operational performance. Hotel transaction volumes surged from USD 340 million in 2024 to nearly USD 471 million in 2025—a 38 per cent year-on-year increase—reinforcing India's positioning as a compelling hospitality investment destination.

As Finance Minister Nirmala Sitharaman prepares to unveil the fiscal roadmap, expectations are mounting across industry bodies, investors, operators and the wider public. Stakeholders are seeking measures that address rising cost pressures, simplify regulatory processes and support long-term growth sustainability. With high capital requirements and long gestation periods, hotels remain particularly sensitive to signals around financing, taxation and project approvals.

Industry recognition and long-term capital support

The Hotel Association of India (HAI) has urged the government to accord greater policy recognition to hotels, citing their contribution to GDP, employment and foreign exchange earnings. KB Kachru, President of HAI and Chairman, South Asia, Radisson Hotel Group, emphasises that sector-specific reforms are essential to build resilience and unlock growth.

Kachru identifies infrastructure status as the single most transformative intervention. He argues that extending infrastructure benefits to hotels would catalyse investment, accelerate job creation and strengthen the sector's role in achieving the broader vision of Viksit Bharat and Aatmanirbhar Bharat. Beyond access to finance, he points to persistent challenges around compliance costs and approval timelines. Multiple licences, no-objection certificates and clearances across different levels of government continue to delay projects and inflate costs, particularly for greenfield developments.

Calling for urgent reforms, Kachru stresses the need for single-window clearances, reinstatement of foreign exchange earnings incentives, higher depreciation benefits for hotels and long-pending GST rationalisation.

Infrastructure status and investment-led expansion

Similar expectations are echoed by the Federation of Hotel and Restaurant Associations of India (FHRAI). Surendra Kumar Jaiswal, President of FHRAI, notes that while extending infrastructure status to hotels in 50 tourist destinations was a positive step, expanding this support nationwide is critical to unlocking the sector’s full potential.

JLL India reports that over 400 hotel signings were recorded in 2025, adding more than 50,000 keys to the development pipeline. A majority of these signings were concentrated in Tier II and Tier III cities, reflecting a strategic shift toward secondary markets. The midscale segment led new additions, followed by upper upscale and upscale categories. Overall supply expanded by around five per cent year-on-year, adding over 11,000 keys, with total hotel inventory projected to exceed 320,000 rooms by 2030.

Jaiswal explains that nationwide infrastructure status would enable long-term, affordable financing, particularly for projects in emerging destinations, heritage towns and smaller cities. He adds that tax incentives for new hotels and higher depreciation allowances would encourage fresh investments and timely asset upgrades, while GST rationalisation and single-window approvals remain critical to competitiveness.

Tourism competitiveness and destination development

From a broader tourism lens, the Federation of Associations in Indian Tourism & Hospitality (FAITH) has highlighted the importance of destination marketing and global competitiveness. Aashish Gupta, Consulting CEO of FAITH, underscores the need for sustained budgetary allocations toward international branding and digital promotion under the Incredible India campaign.

Gupta reiterates that extending infrastructure status to hotels nationwide is essential to promote organised, branded accommodation across tourism segments at reasonable borrowing costs. He also flags policy constraints affecting competitiveness, calling for rationalisation of the 20 per cent TCS on outbound travel to one per cent to prevent Indian travel agents from losing ground globally.

On destination planning, Gupta stresses the importance of carrying-capacity norms for existing tourist hubs and targeted budgetary support for developing new destinations with complete last-mile connectivity.

Connectivity, demand outlook and fiscal signals

From an infrastructure and ratings perspective, Kinjal Shah, Senior Vice President and Co-Group Head, Corporate Sector Ratings at ICRA Limited, expects the Budget to reaffirm its focus on regional connectivity through the UDAN scheme. She highlights investments in new airports and capacity expansion at key locations as vital to addressing access constraints, alongside continued emphasis on medical tourism, new attractions and streamlined e-visa processes.

ICRA expects strong pricing power and sustained demand to support revenue growth in the premium hotel segment through H2 FY2026 and FY2027. Despite temporary flight disruptions following revisions to Flight Duty Time Limitation norms in December 2025, hotel bookings remained resilient as travellers extended stays or opted for alternative transport. Occupancy is estimated at 69–71 per cent, with ARR in the range of ₹8,100–₹8,200 for 9M FY2026, buoyed by weddings, long weekends and steady business travel.

While GST decisions fall under the GST Council, Gupta notes that budgetary guidance is essential to enable input tax credit set-offs for tourism entities operating at the five per cent GST rate. Supporting this view, Ravi Gosain, President of IATO, stresses that GST rationalisation would align Indian destination pricing with regional competitors and calls for higher overseas marketing spends to attract long-haul, high-value tourists. He also advocates incentives for airlines to serve lesser-known cities, enabling a more equitable distribution of tourism benefits.

Restaurants flag rising cost pressures

Within the hospitality value chain, restaurants continue to face intensifying cost challenges. The National Restaurant Association of India (NRAI) has sought urgent relief from GST provisions under the reverse charge mechanism on commercial leases. NRAI President Sagar Daryani notes that Notification No. 09/2024 has significantly increased costs for small restaurants and MSMEs, particularly those renting from unregistered landlords and unable to claim input tax credits.

NRAI has also called for reinstatement of the Service Export from India Scheme with a five per cent duty credit on foreign exchange earnings, targeted subsidies on essential inputs and utilities, improved access to debt financing, grant of industry status to food services and the creation of a dedicated food services ministry. Additional proposals include government-supported employee welfare initiatives to enhance sustainability and employment.

Looking ahead

Collectively, the hospitality industry's expectations extend beyond immediate tax relief. Long-term financing support, faster approvals, improved connectivity to religious and pilgrimage destinations, and focused development of smaller cities and towns remain central asks. With supply continuing to lag demand, supported by strong consumer and investor sentiment, the current imbalance is expected to persist over the next two to three years.

As Union Budget 2026 approaches, the sector's message is clear: a coordinated fiscal framework that places hospitality at the heart of tourism-led growth can unlock investment, generate employment and strengthen India's position across the global travel and services ecosystem.